92-7

Office of the Legislative Auditor

State of Montana

Report to the Legislature

December 1992

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1992

Department of Corrections and Human Services

This report contains 22 recommendations to the Department of Corrections and Human Services and 1 recommendation to the Department of Social and Rehabilitation Services. These recommendations concern:

- Accelerating Medicaid settlement procedures.
- Recovering an additional $282,000 in central office costs for the General Fund.
- Collecting an additional $36,000 annually in physician services for the General Fund.
- Reducing insurance costs.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1991 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

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December 1992

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Corrections and Human Services for the two fiscal years ended June 30, 1992. Included in this report are recommendations concerning federal Medicaid reimbursement, billing procedures, patient accounts, and strengthening control systems. The department's written response to audit recommendations is included at the end of the audit report.

We thank the director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1992

Department of Corrections and Human Services

Members of the audit staff involved in this audit were Mark C. Barry, Ted Bigart, Shawn F. Bubb, John Fine, Wayne D. Guazzo, Scott Hoversland, Tori Hunthausen, Glenn Jorgenson, D.J. Kimball, Maureen G. Leo, Jim Manning, Emlyn Neuman-Javornik, and Paul J. O'Loughlin.

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Appointed and Administrative Officials

Central Operations

Curt Chisholm, Director

Sally Johnson, Deputy Director

Pamela Joehler, Administrator, Management Services Division

Board of Pardons

		Term Expires
John Thomas	Chairman	1/1/95
David Hoffman	Member	1/1/95
Kathleen M. Flury	Member	1/1/93
Ian Elliot	Member	1/2/93
Craig Thomas	Executive Secretary	

Corrections Division

Mickey Gamble, Administrator

Jack McCormick, Warden, Montana State Prison

Dan Maloughney, Superintendent, Swan River Forest Camp

Steven MacAskill, Superintendent, Women's Correctional Center

Mental Health Division

Dan Anderson, Administrator

Jane Edwards, Superintendent, Montana State Hospital

Ron Balas, Superintendent, Center for the Aged

Alcohol and Drug Abuse Division

Darryl Bruno, Administrator

Special Services Division

Robert W. Anderson, Administrator

Jennifer Pryor, Superintendent, Montana Developmental Center

Sylvia Hammer, Superintendent, Eastmont Human Services Center

M. Patrick Estenson, Superintendent, Montana Veterans' Home

Introduction and Scope of Audit

We performed a financial-compliance audit of the Department of Corrections and Human Services for the two fiscal years ended June 30, 1992. The objectives of the audit were to:

1. Review the adequacy of the department's control systems and make recommendations for the improvement of management and internal controls of the department.
2. Determine if the department complied with applicable state and federal laws and regulations.
3. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for the audit period.
4. Determine implementation status of recommendations from the prior audit.

This report contains 22 recommendations to the department and 1 recommendation to the Department of Social and Rehabilitation Services. Areas of concern deemed not to have a significant effect on the successful operation of department programs are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

For the two fiscal years ended June 30, 1990, the department consisted of the director's office and three Helena divisions, plus various institutions located throughout the state. The legislature enacted separate appropriations for the department's Central Office operations and various institutions for 1991 biennium. In October 1990 the department reorganized. The department now is organized with five systems: Central Operations, Special Services, Corrections, Mental Health, and Chemical Dependency. In the 1993 biennium, the legislature appropriated funds for the department as a single entity. The reorganization and subsequent change in department budgeting is reflected in the financial schedules shown on pages A-7 and A-8.

Central Operations

Central Operations of the department consists of the Director's Office, Management Services Division, Special Services Division, and the Board of Pardons. The Director's Office provides the policy making, legal, clerical, and personnel support for the department. The Management Services Division is comprised of the Fiscal, Reimbursement, and Information Services Bureaus. These three bureaus provide policy direction; control and support to the department in the areas of budgeting, accounting, payroll, property and supply management; federal and third party reimbursements; and computer information systems. The Board of Pardons oversees Montana's inmate parole and furlough programs. The board also reviews requests for executive clemency and makes recommendations to the Governor concerning those requests.

Special Services

The Special Services System, which consists of the Developmental Disability program and the Veterans' Nursing Home program, supervises the following institutions:

1. The Montana Developmental Center at Boulder is an intermediate care facility which provides individualized treatment for developmentally disabled individuals.

2. Eastmont Human Services Center at Glendive is an intermediate care facility which provides care and training programs for developmentally disabled persons.

3. The Montana Veterans' Home at Columbia Falls provides domiciliary and nursing care for honorably discharged veterans and their spouses who are unable to earn a livelihood by reason of such service or because of age.

The department has started construction design planning for a 100-bed veterans' nursing home at Glendive. Department management projects the new veterans' home will open in July 1995.

Corrections

The Corrections System provides for the administration, management, and coordination of adult correctional services in Montana. The system includes an operations staff that provides overall supervision, direction and guidance for Montana's adult correctional system, which also encompasses the Community Corrections Service, Industries and Training, and Adult

Institutional Services components. The Community Corrections Service component provides probation and parole supervision services, operates five pre-release centers, two intensive supervision programs operating as community-based alternatives to prison, and the Supervised Release Program that allows community supervision of qualifying inmates. The Industries and Training component includes ranch and dairy, prison industries, and industries training operations, and the license plate factory. The Adult Institutional Services component consists of:

1. Montana State Prison at Deer Lodge which provides facilities for the custody, treatment, training and rehabilitation of adult male criminal offenders. Initially established as a federal prison in 1873, the prison facilities were transferred to the state when Montana was granted statehood in 1889.

2. Swan River Forest Camp which is a minimum security correction facility for inmates transferred from the men's prison who are 25 years of age or younger. The inmates work with the Department of State Lands and are involved in several forestry programs.

3. The Women's Correctional Center, located at Montana State Hospital on the Warm Springs campus, which provides facilities for adult female offenders. The department has selected a site for a new facility in the Billings area and projects the facility will be in use by the spring of 1995.

Mental Health

The Mental Health System provides treatment, rehabilitation and support services for psychiatrically disabled persons. The system consists of three components: 1) the operations component that provides management and coordination of the entire system, 2) the community mental health services component which provides community based services to children and adults throughout Montana by five regional community mental health centers, and 3) the inpatient services component which includes:

1. The Montana State Hospital, located at Warm Springs and Galen, provides evaluation and psychiatric treatment for persons who are mentally ill. The hospital also treats patients who have tuberculosis or silicosis, and is licensed to provide acute hospital and intermediate nursing care.

2. The Center for the Aged at Lewistown is a long-term care facility for older people with aging-related diseases, who are experiencing a mental disability requiring a level of care not otherwise available in the community. Residents must be at least 55 years of age and not in need of intensive psychiatric care.

Chemical Dependency

The Chemical Dependency System is responsible for all major management functions for state chemical dependency services. The system is composed of an operations component to administer statewide chemical dependency services, a community services component to assist publicly supported chemical dependency services in Montana communities, and the in-patient services component which consists of the Alcohol Service Center and the Lighthouse Chemical Dependency Center on the Galen campus.

Average populations of the department's facilities in the past five fiscal years are shown in the following table.

Table 1

Average Daily Population

	Fiscal Year 1987-88	1988-89	1989-90	1990-91	1991-92
Corrections System:					
Alternative, Inc., Billings[1]	30.48	29.34	30.32	33.05	31.95
Billings Life Skills Center[1]	9.58	11.14	11.59	11.92	9.27
Butte Pre-release Center[1]	32.22	33.51	34.26	35.50	36.14
Great Falls Pre-release Center[1]	27.46	29.22	32.24	39.13	38.31
Missoula Life Skills Center	23.36	24.11	24.76	24.89	25.06
Women's Correctional Center	35.23	46.34	53.28	58.20	62.60
Probation and Parole	3,219.00	3,192.00	3,494.00	3,797.00	4,175.00
Intensive Supervision Program	5.80	16.00	29.40	45.00	42.00
Montana State Prison	957.41	1,031.90	1,097.24	1,140.15	1,192.13
Swan River Forest Camp	49.11	50.19	52.31	57.41	55.26
Total	4,389.65	4,463.75	4,859.40	5,242.25	5,667.72
Mental Health System:					
Center for the Aged	168.66	163.25	152.04	142.79	141.73
Warm Springs and Galen Campus	387.46	379.14	377.72	362.60	340.88
Total	556.12	542.39	529.76	505.39	482.61
Chemical Dependency System:					
Galen Campus	78.29	79.94	77.53	78.90	72.70
Total	78.29	79.94	77.53	78.90	72.70
Special Services System:					
Developmental Disability Program:					
Eastmont Human Services Center	54.24	54.49	54.09	53.46	51.16
Montana Developmental Center	194.76	185.50	181.05	153.33	123.33
Total	249.00	239.99	235.14	206.79	174.49
Veteran's Nursing Home Program:					
Montana Veterans' Home	131.77	127.80	123.84	122.34	118.26
Total	131.77	127.80	123.84	122.34	118.26
Average Daily Caseloads for Community Services:					
Mental Health Community Serv.[2]	7,248.00	6,919.00	6,841.00	6,659.00	6,703.00
Alcohol and Drug Community Serv.[2]	1,706.00	1,628.00	1,562.00	1,708.00	1,679.00
Total	8,954.00	8,547.00	8,403.00	8,367.00	8,382.00
TOTAL DEPARTMENT	14,358.83	14,000.87	14,228.67	14,522.67	14,897.78

[1]Facilities operated under contract with the department.

[2]Figures reflect open caseloads at June 30, 1992.

Source: **Compiled by the Department of Corrections and Human Services**

The table on the following page shows the department employment in number of full-time equivalent employees for fiscal years 1990-91 and 1991-92.

Table 2

Full-Time Equivalent (FTE) Employees

	FYE 1990-91 Budgeted	FYE 1990-91 Vacant	FYE 1991-92 Budgeted	FYE 1991-92 Vacant
Central Operations				
Director's Office	9.00	1.08	12.00	0.32
Management Services Division	26.00	0.62	26.00	1.84
Board of Pardons	4.00	(0.09)	5.00	0.35
Total	39.00	1.61	43.00	2.51
Corrections System				
Men's Correct./Central Office	85.50	2.96	89.80	3.91
Women's Correct./Central Office	36.85	0.67	41.35	1.29
Montana State Prison	425.90	(4.84)	450.01	1.31
Swan River Forest Camp	25.83	0.14	26.83	2.01
Total	574.08	(1.07)	607.99	8.52
Mental Health System				
Central Office	8.00	0.46	5.93	(0.50)
Montana State Hospital[1]	733.31	21.71	671.94	(2.29)
Center for the Aged	108.17	2.62	107.57	4.17
Total	849.48	24.79	785.44	1.38
Chemical Dependency System				
Central Office	10.00	0.75	8.00	0.12
Galen Campus[1]	0.00	0.00	51.65	3.21
Total	10.00	0.75	59.65	3.33
Special Services System				
Central Office	1.00	0.00	1.00	0.00
Montana Developmental Center	460.66	59.01	394.47	14.18
Eastmont Human Services Center	103.72	2.81	103.23	(3.24)
Montana Veterans' Home	85.89	4.28	85.89	0.34
Total	651.27	66.10	584.59	11.28
TOTAL DEPARTMENT	2,123.83	92.18	2,080.67	27.02

[1] Due to reorganization 51.65 FTE were moved from Montana State Hospital in the Mental Health system to the Chemical Dependency system, Galen Campus for fiscal 1991-92.

Vacant FTE were calculated using vacant salary hours divided by 2080 hours.

Source: Compiled by the Department of Corrections and Human Services

Prior Audit Recommendations

We performed the audit of the department for the two fiscal years ended June 30, 1990. The report contained 23 recommendations applicable to the department. Of these recommendations, the department implemented 15, partially implemented 5, and did not implement 3. Two recommendations directed to the Mental Disabilities Board of Visitors will be addressed during the Governor's Office audit.

The issues we discussed in this report related to the prior audit recommendations not implemented included: billing for services provided to residents (page 13), the patient employment program at the Montana State Hospital (page 19), and improving controls over the collection and safeguarding of cash (page 32). Issues related to three of the partially implemented recommendations included in this report are: timely medicaid settlements for cost-based units (page 9), internal controls related to inventory (page 35), and depositing cash in accordance with state law on (page 34). The other partially implemented recommendations have been discussed with management and are not included in this report.

Findings and Recommendations

Reimbursements

Background

State law requires the department to collect and process the care and maintenance and other ancillary services payments for the care of residents at Montana State Hospital (MSH), Montana Developmental Center (MDC), Eastmont Human Services Center (EHSC), Center for the Aged (CFA), and Montana Veterans' Home (MVH). The department collects reimbursement revenue from residents or financially responsible parties, insurance companies, the U.S. Veterans' Administration, Medicaid, and Medicare. The department recorded the following revenues for services rendered to residents.

Table 3

Reimbursement Revenue

Institution	Fiscal Year 1990-91	Fiscal Year 1991-92
Montana Developmental Center	$9,095,036	$8,227,209
Montana State Hospital	2,507,170	3,254,242
Montana Center for the Aged	1,558,599	2,159,374
Eastmont Human Services Center	2,220,178	2,262,290
Montana Veterans' Home	2,109,267	2,093,440
Total	$17,490,250	$17,996,555

Source: Compiled by the Office of the Legislative Auditor from the Statewide Budgeting and Accounting System. Fiscal Year 1991-92 amounts are adjusted for overstatement of revenue discussed on page 25 of this report.

The various institutions provide central office with care information, days of residency, and information concerning other services provided to residents or patients. This information is input to the department's Management Information System (MIS). Each month the MIS accumulates the services by resident and provides an itemized statement of charges for each resident.

Department personnel in Helena review the monthly statements and bill appropriate responsible parties. The MIS tracks the services billed and payments received and provides accounts

receivable information by resident. The department has four ledger types: Medicaid, Medicare, insurance, and resident or financially responsible party. If one resource denies payment, the unpaid service is removed from that ledger and entered on the next available ledger until all eligible sources are billed.

The following sections discuss issues related to the reimbursement function and propose methods to enhance the reimbursement system.

Reimbursement of Cost-Based Units

MDC, EHSC, and the Long-Term Care Unit at MSH are classified as cost-based units under the Medicaid program. These units receive federal Medicaid payments at a cost-based rate for care and maintenance of eligible residents. The department pays its costs of operations for cost-based units from the General Fund and bills the Department of Social and Rehabilitation Services (SRS) for Medicaid payments. SRS establishes an interim daily rate for residents of each unit. Actual payment rates are not final until units submit cost reports for the fiscal year and SRS audit staff perform desk reviews and settle on the reports. The following report sections discuss concerns related to the established interim rates and the settlement process.

Settlement Procedures

Since our last audit, SRS completed the cost-based facilities final settlements and reimbursed the department for fiscal years prior to 1988-89. Because SRS personnel did not perform an audit of cost reports for cost-based facilities for fiscal year 1989-90, SRS delayed processing a $1,049,475 provisional settlement to transfer money to the General Fund until February 1992. We estimate the state General Fund lost interest earnings of approximately $92,000 as a result of the delay.

In the prior audit we recommended the department request SRS to perform timely Medicaid settlements for the cost-based institutions. SRS paid the department based on the fiscal year 1989-90 cost report without completing final settlement procedures. SRS officials said they made the provisional payment at the request of department personnel because of the delay in the SRS audit process and the large amount of the

underpayment. As of October 1992, SRS still has not completed the final settlement on the fiscal year 1989-90 cost reports.

We also found SRS had not settled on the fiscal year 1990-91 final cost reports as of September 1, 1992. According to our estimates, the department was overpaid up to $249,095 in that period. The state could be assessed interest by the federal government on the overpaid balance. Section 46.12.1260 ARM specifies the filing period of an institution cost report as 90 days after the end of the fiscal year. Section 46.12.1261(4) ARM states:

> ". . . the department (SRS) will reimburse the provider promptly following the department's determination of the amount of the underpayment."

Section 46.12.1261 ARM also states SRS will notify the provider of any overpayment and the provider will enter into an agreement to repay the overpayment within 60 days of the mailing of the notice of overpayment.

The administrative rules do not provide guidance to SRS on what constitutes a reasonable time to settle on Medicaid claims. SRS officials said their audit unit had other priority commitments and could not perform the necessary reviews. SRS is taking in excess of two years to settle with cost base units on final cost reports.

If settlements were timely, the state General Fund would earn additional interest income on the settlement payment when the cost-based facilities were underpaid using the interim rate. SRS should consider specifying settlement date deadlines in its administrative rules so that all parties can anticipate payments.

Recommendation #1

We recommend the Department of Social and Rehabilitation Services establish timely cost settlement dates for cost based units in its administrative rules.

Central Office Costs

The department submits a cost report to the Department of Social and Rehabilitation Services (SRS) for each cost-based unit 90 days after the end of each fiscal year. On the cost reports, the department allocates costs associated with its operations to determine the cost of providing residential care to the Medicaid eligible residents at the units. From the residential care costs documented on the report, department personnel calculate the actual Medicaid per diem rate. We reviewed these cost reports and found the department could recover additional central office costs under Medicaid regulations. These office costs include expenses incurred by Central Office for administrative support of the department's institutions.

Federal regulations permit providers operated as components under a single management to include an appropriate share of indirect administrative costs in their cost reports. The regulations specify allocation of these costs on the basis of percentage share of the total costs of the providers' operating units. The department operates MDC, EHSC, and Long-Term Care at MSH as cost-based units.

We estimate the department could recover an additional $166,000 in Medicaid per diem reimbursement for central office costs incurred in fiscal year 1991-92. Since SRS has not settled with the department for fiscal year 1990-91 costs, the department can submit amended cost reports. We estimate the department could recover an additional $121,000 in Medicaid reimbursement for fiscal year 1990-91.

According to one department official, the department tried unsuccessfully to put central office administrative costs in the

cost base over a decade ago. At that time, the allocation plan was rejected. We found that federal regulations have changed to allow allocation of central office costs to each unit on the basis of its percentage of total costs. The change in regulations should facilitate the recovery of central office costs by the department.

Recommendation #2

We recommend the department request reimbursement for allowable central office costs allocated to its cost-based units.

Department Physicians

Cost reports for the Long-Term Care Unit at Montana State Hospital did not include any of the doctors' salaries in the per diem rate from Medicaid. According to federal regulations, costs of physician services not directly related to services provided to individual patients are allowable costs of providers such as MSH. We found the department can recover additional physician costs by allocating the cost of services provided by MSH physicians to the hospital's per diem cost pool.

According to federal regulations, MSH must submit a written allocation agreement between the department and the physician to SRS in order to include physician costs in the per diem rate. The federal regulations require the agreement to specify the percentage of time the physicians spend providing physician services to MSH, and the percent of time spent on direct services to patients. The regulation provides a form for the agreement.

Department personnel at both Central Office and MSH were unaware of the regulation allowing recovery of physician provider costs through an allocation agreement. Through discussions with MSH management, we derived an estimate of physician provider service time for staff physicians. Based on this estimate, we projected the department may recover an additional $21,400 annually in physician costs in the per diem rate of the Long-Term Care Unit at MSH.

Recommendation #3

We recommend the department execute allocation agreements with physicians at MSH and recover a portion of physician costs from Medicaid through per diem charges.

Unbilled Services

Section 53-1-402, MCA, requires the department to charge residents for per diem care and ancillary services. We reviewed randomly selected monthly medical charts for 83 Medicaid eligible patients at MSH. Of the 83 medical charts reviewed, we found 33 physician visits documented on the charts that were not recorded on the statement of services. Based on these observations, we project the department could recover an estimated $15,500 each fiscal year in Medicaid reimbursement if all physician services recorded on the medical charts were billed to the resident.

In our previous two audits, we recommended the department establish procedures to record all billable services on the resident's statement of services. Although the department has concurred with our recommendation in prior audits, we found MSH has not assigned responsibility to specific personnel at the units in order to implement this recommendation. The department has modified and revised the charge slips to facilitate the completion by the physicians. Physicians at MSH said the one-page documents were difficult to understand and complete. We noted the forms require the physician to document the physician number and to check the type of services performed. The patient information could be completed by the ward clerk.

According to department personnel, some of the 33 physician visits not billed by the department are examinations of patients which precede quarterly care reviews of patients. Department personnel said these physicians visits are not billed because the visits have been assumed to be part of the required care reviews, which are not allowable Medicaid expenses. Based on our review, the physician visits are routine examinations of patients

which can be billed under Medicaid regulations. Therefore, the physician examination of a patient prior to the care review is billable under an appropriate medical procedure code and separate from the quarterly review processes.

Recommendation #4

We recommend the department implement procedures to ensure all billable physician services, including those preceding quarterly patient reviews, are documented and entered into the billing system.

Timely Per Diem Reimbursement (MVH and CFA)

The department receives per diem reimbursement from residents or financially responsible parties based on their financial ability to pay. The department received private per diem revenue of $1,654,439 and $2,203,187 in fiscal years 1990-91 and 1991-92, respectively. Of these amounts, residents of Montana Veterans' Home (MVH) and Center for the Aged (CFA) paid approximately 85 percent of the annual total private revenue.

In our prior audit, we recommended the department implement procedures to bill for Medicaid per diem within five days after the end of each month. The department now bills Medicaid by the fifth day of the month following the month in which the services were provided. The department also has the information needed to bill private pay per diem within five days after the end of each month. We reviewed the time elapsed from the fifth day after the end of the month until the day the department billed private responsible parties. We found an average time delay of 15 days at MVH and 23 days at CFA through the first 10 months of fiscal year 1991-92. By eliminating the delay in billing private pay per diem at these two facilities, we estimate the department could generate an additional $5,000 each fiscal year in General Fund interest.

Department personnel said all ancillary services provided must be entered and verified before the billing statements can be sent to the individual parties. However, the only ancillary service

received by the residents at MVH and CFA are pharmacy services. Pharmacy services charged to residents are input into the department's billing system via magnetic tape provided by the contract pharmacist. The tape is provided to the department at the beginning of each month. Agency personnel also said the resident's ability to pay is adjusted before the billing statements are sent.

We believe that the department could send the per diem billing statements to the private responsible parties for residents at MVH and CFA within five days after the end of month to increase revenue to the General Fund. If the pharmacy charges are not available in time to be included on the monthly bill for services, these charges could be added to the next month's statement. Any adjustments, such as changes in ability to pay, could be made later and credited to the resident's account.

Recommendation #5

We recommend the department implement procedures to bill for per diem at MVH and CFA within five days after the end of each month.

Employee Rental Units at MSH

The department rents houses, duplexes, and apartments to employees of the Montana State Hospital (MSH). Currently 30 units on the Galen campus and 45 units on the Warm Springs campus are available to employees. A comprehensive study was conducted in 1976 to determine the fair market rental rates for the housing units. Since then, there have been periodic evaluations to adjust the rates taking into consideration utility, maintenance, and depreciation costs. We found the rental rates, which include utilities, have not been updated since the last evaluation and rate increase in August 1987.

Department personnel said the rental rates are intended to recover the cost of the utilities and maintenance of the units.

Based on our comparison of natural gas and electricity rate increases from the 1987 cost study to current rates, the department did not adjust rental rates to fully recover the cost of utilities in the units. We estimate in fiscal year 1991-92, department rental rates did not recover up to $10,000 in utility costs. If the rental rates are not adjusted for increased costs to the department for these units, the department is subsidizing employees' housing at a cost to the General Fund.

According to a department official, the procedure used to evaluate rates was established in the mid-1980s as a result of legislative concerns over inadequate rental rates. After the 1987 update, the department delegated responsibility for future revisions to each facility with rental units, the official said. Personnel at the MSH stated MSH has not been given the responsibility or the authority to adjust rental rates. MSH personnel considered any adjustments in rents to be the responsibility of the department's personnel office. Department policy for MSH states that rental rates are established and altered by central office.

Since a method to evaluate and adjust rates already exists, there would be minimal cost to the department to perform periodic analysis of the rates. The department should periodically evaluate rental rates to ensure the department recovers the costs of providing the housing.

Recommendation #6

We recommend the department conduct periodic reviews of rental rates charged to MSH employees to ensure the department recovers the costs of providing the housing.

Insurance on Vacant Buildings

The department obtains property insurance on buildings and equipment at various institutions from the Tort Defense and Risk Management Division of the Department of Administration. The Risk Management Division charges insurance rates based on building and equipment values. In addition to liability coverage, which the department should maintain, we found the department's list of insured properties included coverage on the building structures of vacant buildings with no value at MSH. Using insurance rate information provided by the Risk Management Division, we calculated the department spent $4,812 during the two years ended June 30, 1992 for property damage insurance premiums to cover damage to vacant and unused buildings slated for demolition. The department can reduce General Fund costs in future years by eliminating property damage insurance coverage on abandoned buildings.

Recommendation #7

We recommend the department eliminate property damage insurance coverage on abandoned buildings.

Legal Compliance

During our audit of the department we tested compliance with state and federal laws and regulations related to department operations. The following six report sections discuss five instances of noncompliance with state law and one instance of noncompliance with the federal Fair Labor Standards Act.

Workers' Compensation Benefits

During our audit, we tested payroll records of department employees at four locations who established eligibility for workers' compensation wage loss benefits. We found three department employees who were injured and receiving workers' compensation payments for loss of wages also used their sick and/or vacation leave at the same time. State law prohibits state

agencies from supplementing workers compensation benefits with sick leave or vacation leave.

Section 39-71-701, MCA, states that "a worker is eligible for temporary total disability benefits when the worker suffers a total loss of wages as a result of an injury. . ." Paid sick leave or vacation benefits are considered wages. Section 39-71-736, MCA, specifies "an injured worker is not considered to be entitled to workers' compensation benefits if the worker is receiving sick leave benefits." In a recent opinion, the Attorney General held that a state agency may not supplement an employee's workers' compensation wage loss benefits with sick leave or vacation leave.

Three of nine employees tested at two institutions received vacation pay while receiving workers' compensation payments. One of the three employees who received vacation pay also received regular wages and sick leave while receiving compensation payments. We calculated that these employees received $2,558 in vacation, sick leave, and regular wages while receiving workers' compensation benefits.

Department policy allows an employee receiving workers' compensation benefits to request accrued annual, holiday, or compensatory leave. The department policy does not follow state law.

Recommendation #8

We recommend the department comply with state law regarding use of sick leave and vacation benefits in conjunction with workers' compensation benefits.

Patient Employment

The Montana State Hospital operates a patient employment program. The program is certified by the U.S. Department of Labor and allows the employment of individuals with disabilities at special minimum wage rates. During our prior audit, we found the patient employment program was not operating in compliance with current federal regulations.

Federal regulations for patient employment programs require the department to base the special minimum wages paid to patient workers on the worker's individual productivity in proportion to the wage paid to an experienced nondisabled worker performing essentially the same work. Federal regulations also define an experienced worker as one who has learned the basic skills of the work he performs, ordinarily by completion of a probationary or training period.

MSH pays patient employees a proportionate wage based upon the amount a state employee would earn at the entry level salary for similar work. According to state policy, the entry level salary for state employees is normally paid for a six-month probationary period and upon successful completion of the probationary period the state employee is evaluated and promoted to a permanent position. Therefore, the wage for experienced patient employees should be the applicable percentage of the wage of a state employee with more than six months of experience.

The hospital has set limits on the percent of productivity a patient employee will be paid. These limits place arbitrary ceilings on patient employees' earnings regardless of productivity. The following table shows the wage ceilings for positions held by patient employees.

Table 4
Patient Employees' Maximum Earning Rate

State Pay Grade	Productivity Limit	Maximum Wage
5	75%	$4.11
7	65%	$4.15
8	60%	$4.15

Source: Compiled by the Office of the Legislative Auditor

Personnel explained the limits allow more patients to work in the program. However, federal regulations do not allow for fixed productivity limits such as those used by MSH. In accordance with federal regulations, a worker performing at 80 percent of the capacity of a regular employee should receive payment at 80 percent of a regular employees' wage.

The noncompliance with federal regulations discussed above is a result of not having written procedures to ensure compliance. Continued exemption from the provisions of the federal minimum wage law for the patient employment program depends upon compliance with federal regulations under which the exemption is granted. In our prior audit, the department concurred with a recommendation to establish written procedures to operate the program within current federal regulations, but did not establish such procedures.

Recommendation #9

We recommend the department establish written procedures at Montana State Hospital for the patient employment program to ensure the program complies with current federal regulations.

Reporting of Theft

Section 5-13-309(3), MCA, requires state agencies to immediately notify both the Attorney General and the Legislative Auditor in writing upon the discovery of any theft, actual or suspected, involving state moneys or property under their control or for which they are responsible. During audit field work, we noted Montana State Prison (MSP) officials were aware of three separate instances of theft in February and March 1992. Two cases involved the theft of inmate hobby fund cash, and the other instance concerned theft of cash from a deposit in the accounting office.

A MSP official said the department decided not to file notification until an internal investigation was completed. The department reported the occurrences on May 1, 1992 after we identified the concerns during the audit. The department should properly report all instances of actual or suspected theft immediately upon discovery as required by law.

Recommendation #10

We recommend the department notify the Attorney General and the Legislative Auditor of any actual or suspected theft in compliance with state law.

Prison Industries Rules

The department operates the prison industries program at Montana State Prison (MSP) to provide a means for inmates to attain employment skills. Section 53-30-133, MCA, requires the department to adopt administrative rules for the operation of the prison industries program. We noted the department had not adopted rules for the prison industries program as required by state law.

According to a MSP official, the department operates the program under the guidance of general prison rules. The official indicated department management at the Central Office advised

MSP to forego the rulemaking process to allow the program flexibility during its start-up phase. The program was started in 1982. Prison industries program rules could include procedures related to hiring, training objectives, expanding operations, and marketing.

A Corrections Division official confirmed that the department had placed emphasis on starting the program quickly and allowing program operators at MSP flexibility in developing the program. The program has operated effectively under existing prison rules, he said.

Recommendation #11

We recommend the department adopt rules to implement the prison industries program as required by state law.

Release of Indigent Patients

Section 53-21-188, MCA, requires personnel at the mental health facilities to notify, prior to discharge of a patient, the welfare office of the county from which the patient was committed. Under the statute, the county welfare department shall determine whether the patient is in financial need and shall care for the released patient under the public assistance law unless the patient can meet financial needs from other sources.

Through interviews with professional personnel at the Montana State Hospital (MSH), we found MSH does not notify county welfare departments for all discharged patients as required by state law. Instead, MSH personnel determine the financial need of patients prior to release. If the patient has financial need, then MSH personnel notify the county in which the patient plans to reside after release rather than the county which committed the patient. As a result, the welfare department of the county committing the patient may not be notified.

MSH personnel said they were unaware of the law requiring notification of county welfare departments. An official indicated MSH has always discharged indigent mental patients in this manner. The MSH discharge procedure benefits the patient by arranging for financial support before release. Therefore, the procedure meets the intent of the statute, which is to ensure released patients have the resources to cover basic living costs. The department should modify its procedures to comply with state law and consider proposing amendments to the statute if necessary.

Recommendation #12

We recommend the department:

A. **Properly notify county welfare departments of the release of patients as required by state law.**

B. **If necessary, seek legislation to permit the use of an alternative procedure to notify local officials of the release of patients.**

Computer Purchase Agreement

The department acquired computer equipment and software worth $445,913 under a lease purchase agreement. Department records did not contain a valid purchase order or agency requisition for the equipment purchased. Section 18-4-221, MCA, gives the Department of Administration power to adopt rules governing the procurement of all supplies and services to be procured by the state. Under state purchasing rules, agencies must obtain an approved purchase order from Purchasing Bureau of the Department of Administration before purchasing an item if the cost of the item exceeds the delegated purchasing authority of the agency. The Department of Corrections and Human Services has delegated purchasing authority for items costing up to $2,000.

In addition, the department did not obtain approval of the equipment from the Department of Administration's Information Services Division (ISD) as required by section 2-17-501, MCA. An ISD official said department personnel discussed the equipment with ISD, but the department did not submit the purchase agreement to ISD for approval as required by state law.

Department accounting personnel furnished us with documentation of legislative approval for the computer purchase in a line item appropriation and minutes of legislative subcommittee hearings. The department also showed us a letter of understanding between the department and the vendor in which the equipment was placed in the department on a demonstration basis prior to legislative approval of the funding. The department circumvented state procurement laws by obtaining the equipment in this manner. Personnel involved in the transaction no longer work for the department.

Recommendation #13

We recommend the department follow state purchasing regulations for computer purchases in compliance with state law.

Accounting Issues

State law regulates certain accounting and cash handling functions. We found instances of noncompliance with state accounting laws and regulations at some department locations. The following six sections describe instances where the department can improve legal compliance in accounting and cash management.

Inaccurate Revenue Records

The department uses the modified accrual basis of accounting for its General and Special Revenue Funds. Under state policy for the modified accrual basis, revenue received as reimbursements for services provided is recognized in the year the costs for the services are recorded. The department records revenue for medical services rendered at certain institutions for which payment has not yet been received at fiscal year-end. In the following fiscal year, department personnel again record revenue for these services when payment is received. To ensure the department records revenue only once, department accountants decrease current year revenue by the amount of cash collected which relates to services performed in the previous year for which revenue was recorded. The following two paragraphs describe situations where department personnel recorded revenue incorrectly.

To adjust for cash collections of fiscal year 1990-91 revenue during fiscal year 1991-92, the department decreased prior year revenue rather than current year revenue. As a result, the department overstated current year revenue by $1,675,793 in fiscal year 1991-92. The department recorded revenue twice in one fiscal year, which is in violation of state accounting policy.

In July 1992, department accounting personnel recorded charges for services receipts as revenue in fiscal year 1991-92. The department had previously included the activity as part of its revenue accrual for fiscal year 1991-92. As a result of recording the revenue twice, the department's charges for services revenue is overstated by an additional $47,898 for fiscal year 1991-92.

Department officials attributed the errors to high turnover in accounting personnel. As a result of the errors, current year charges for services revenue is overstated by $1,564,285 in the General Fund and $159,406 in the Special Revenue Fund in fiscal year 1991-92.

Recommendation #14

We recommend the department accurately record revenue in accordance with state accounting policy.

Unrecorded Activity

Section 17-1-102(5), MCA, requires state agencies to input all necessary transactions to the state's accounting records to present receipt, use, and disposition of all money for which the agency is accountable. Section 17-2-201, MCA, requires agencies to obtain approval from Department of Administration to establish all nontreasury cash accounts.

The Missoula Life Skills Center had a cash change fund totalling approximately $530 that was not properly authorized and was not recorded on the state accounting records. Center personnel explained the fund has resulted from the sale of soda beverages to the inmates living at the Center. The fund has accumulated over several years.

According to center personnel, the cash account is used to make short-term loans to the inmates. We found the list of outstanding loan balances made to inmates totalled $502 as of April 30, 1992. We determined the expenditures for the purchase of the beverages, the revenue, and the outstanding loans are not recorded on the accounting records of the department. We were not able to determine the amount of revenue generated or the expenditures from the information available.

Department personnel at the central office were not aware of the Life Skills Center cash change fund. The activity, conducted for the benefit of residents, could be recorded in the Special Revenue Fund.

Recommendation #15

We recommend the department obtain approval for the Life Skills Center cash fund and record its activity on the state's accounting records.

Equipment Expenditures

The Department of Administration's Accounting Bureau establishes guidelines in the Montana Operations Manual for the classification of expenditures on the state's accounting records. Those guidelines provide separate classifications for supplies and materials (operating expenses) and other equipment with a life expectancy over one year. We reviewed high dollar purchase orders and payments at the Montana State Prison. Of the high dollar supplies and materials purchases we traced to supporting documents, 8 of 11 purchases in fiscal year 1990-91 and 4 of 9 purchases in fiscal year 1991-92 should have been classified as equipment expenditures rather than supplies and materials. Equipment purchased included commercial scales, a fingerprint reader, a shop dust collector, test equipment, and office furniture.

As a result of the misclassification, operating expenses are overstated and equipment expenditures are understated by at least $4,547 in fiscal year 1990-91 and by at least $1,391 in fiscal year 1991-92. MSP personnel stated that the equipment appropriation is not large enough to cover the necessary equipment needs of the prison. However, we noted state law allows MSP to request transfers for spending authority to purchase equipment.

Recommendation #16

We recommend the department ensure MSP records equipment expenditure transactions in accordance with state accounting policy.

Equipment Inventory Records

The department purchased computer equipment worth $21,399 in fiscal year 1990-91 for use in the industries training program at Montana State Prison (MSP) using Carl Perkins grant funds (CFDA #84.048). MSP accounting personnel recorded the central processing unit, five work stations and two printers as one equipment item on the department's property records. Federal regulations require a state agency to manage equipment acquired under a grant in accordance with state laws and policies.

State accounting policy requires the department to assign individual property numbers to each fixed asset item with a value in excess of $1,000. The individual items of computer equipment each have value greater than $1,000 and could be used separately from the other units. To ensure effective control over each unit and comply with state policy, department personnel should tag each unit with a unique property tag number.

A department official said the equipment was recorded under one number to ensure the total amount was recorded prior to fiscal year-end 1990-91. We noted the department had not assigned unique property numbers to the individual units as of June 30, 1992.

Recommendation #17

We recommend the department assign individual property numbers to fixed assets as required by state accounting policy.

Contingent Revolving Funds

State accounting policy allows agencies to maintain checking accounts outside the state treasury to meet certain unpredictable expenses. Under state policy, agencies may use these accounts, called contingent revolving funds (CRF), for purposes demanding immediate payment. The uses allowed include emergency travel, COD shipments, freight due on delivery, and payroll disbursements when there are errors in pay.

We reviewed CRF transactions at several institutions. At two locations, we noted uses of the CRF which did not comply with state policy. At these locations, we noted the department used the CRF to pay expenses for which a state warrant or no warrant transfer could have been used, if personnel had requested payment in a timely manner. We also noted payment of postage meter expenses, which are specifically excluded from CRF payment under state policy. Montana Developmental Center paid travel advances and training seminar fees from a CRF account. Montana Veterans' Home paid seminar costs, postage meter charges and a professional license renewal with CRF checks. The expenditures totalled approximately $6,400.

Personnel cited numerous reasons for using the CRF. The reasons included inadequate planning by staff and lag times in receiving warrants processed through the central office in Helena.

Recommendation #18

We recommend the department use contingent revolving fund accounts in accordance with state accounting policy.

Other Accounting Issues

Section 17-1-102, MCA, requires state agencies to input, before the end of the fiscal year, all transactions necessary to present the receipt, use and disposition of all assets for which the agency is responsible in accordance with generally accepted accounting principles. In the following paragraphs, we discuss several situations in which department records did not comply with generally accepted accounting principles and state accounting policy.

-- The department entered into lease purchase agreements to purchase a computer for $355,538 and related software for $99,340. The department signed the agreements and received the system in fiscal year 1990-91. Department personnel did not record the assets and liabilities related to these lease purchases on SBAS until fiscal year-end 1991-92. Accounting personnel recorded the lease purchase in fiscal year 1991-92 when the first lease payment became due. Generally accepted accounting principles require that assets and liabilities be recorded in the financial records at the inception of the lease. Thus, the asset and liability should have been recorded in fiscal year 1990-91. By not recording the asset and liability at the inception of the lease, assets and liabilities are understated in the General Fixed Asset Account Group, and Long-Term Debt Account Group, respectively, in fiscal year 1990-91 by $445,913.

The vendor also gave the agency a discount on the computer purchase. Accounting personnel did not adjust the asset and liability account groups to reflect the discount, causing these accounts to be overstated by $8,965 at June 30, 1992.

-- During fiscal year 1991-92, the department restructured its accounting records to reflect reorganization of the

department's operations into a single budget. To consolidate accounting records, department accounting personnel moved assets from existing institution based accounts. We noted department records did not show any land in the General Fixed Assets Account Group at June 30, 1992. Department personnel indicated they overlooked entering the land account on the consolidated financial records. As a result, department records did not include $1,993,571 in land in the General Fixed Assets Account Group at June 30, 1992.

-- The department maintains accounts in local banks for moneys deposited by residents. To show custody of these resident accounts, the department accounting personnel adjust cash and property held in trust in the Agency Fund to reflect assets held by the department on behalf of residents.

At two locations, Montana State Prison (MSP) and Swan River Forest Camp (SRFC), Agency Fund accounts on SBAS were not adjusted at June 30, 1992. As a result, cash and property held in trust were understated by $55,626 for MSP residents and $3,927 for SRFC residents. Department accounting personnel at MSP said they each thought the other person would make the adjustment, but neither person made it. Accounting personnel at SRFC said they had not been trained to make the adjustment.

In addition, central office adjusted records to show an increase in resident assets for pre-release centers rather than to reflect the decrease which actually occurred. As a result, the accounting records overstated cash and property held in trust by $11,432 in the Agency Fund at June 30, 1992 for the pre-release operations.

Department officials attributed these errors to turnover in key accounting positions. With the department now using a single set of accounting records, personnel at central office should consider developing a checklist designating responsibility for year-end adjustments.

Recommendation #19

We recommend the department implement procedures to ensure accounting records accurately reflect the department's financial activity.

Internal Controls

Management is responsible for establishing and maintaining a system of internal control. The system should provide management with reasonable assurance that resources are safeguarded against waste, loss and misuse. The following four report sections discuss areas where the department could improve its management controls.

Cash Deposits

The department receives cash at various locations as part of department operations or as custodian for resident accounts. Section 17-6-105(6), MCA, requires the department to deposit receipts daily when coin and currency exceed $100, total receipts exceed $500, or at least weekly if the other conditions are not met. State accounting policy requires immediate restrictive endorsement of checks received and department policy also requires all checks to be restrictively endorsed when the mail is opened. We noted the following situations in which the department's cash controls could be improved.

1. At the Montana Developmental Center, we found delays of up to six days in the deposit of resident account receipts. The deposits ranged in amounts from $105 to $2,934. On one occasion, we observed six checks in the vault totalling approximately $1,500 payable to MDC for residents. The checks were not restrictively endorsed.

2. Personnel at the Center for Aged made weekly deposits regardless of the amount of money collected. The deposits included receipts of resident income in amounts from $28,674 to $37,541 collected over a six-day period. In addition, we noted one check for $1,800 held for four

days and another check for $229 held for 14 days before deposit.

3. When patients at Montana State Hospital open their own mail that contains cash or checks the patients endorse the checks. Then a staff person carries the endorsed checks or cash to the accounting office. We found that checks received by residents at MSH were not restrictively endorsed upon receipt on two of six wards. State accounting policy requires checks to be restrictively endorsed immediately upon receipt. We also noted receipts were not being issued to residents by staff who receive resident cash. The response to our prior audit said the department will require staff to ensure the patients restrictively endorse checks and to write receipts for cash received from patients.

In our prior report, we recommended the department ensure receipts are deposited in a timely manner and implement procedures to improve controls over the collection and safeguarding of cash. The department concurred with our recommendations. Personnel indicated various reasons for the situations mentioned above. The reasons included lack of knowledge regarding the state law and policy, difficulty in coding certain transactions, and incomplete effort to establish the control procedures recommended by the last audit. Department personnel have the fiduciary responsibility to ensure safeguarding of resident's assets. Restrictive endorsement of receipts and timely deposits minimize the potential of theft. Timely deposits also ensure maximization of interest earnings.

Recommendation #20

We recommend the department:

A. Deposit receipts in accordance with state law.

B. Restrictively endorse checks upon receipt by department staff.

C. Prepare written receipts for residents who give cash or checks to staff.

Timely Recording of Resident Account Activity

Department personnel maintain accounts for the residents at its various facilities. Personnel assume fiduciary responsibility for the residents' personal money which is deposited in a checking account. A ledger of each individual's receipts and disbursements is maintained by staff. At some facilities residents have individual savings accounts.

During our testing of controls over resident accounts we noted receipt and disbursement activity was not recorded on a timely basis at the Montana Developmental Center (MDC). In some cases MDC only recorded account activity monthly. As a result, several individual accounts were overspent. In a review of records, we noted three accounts on March 6, 1992 and three accounts on April 1, 1992 with negative balances totalling $113 and $235, respectively, on the account ledger. There were approximately 120 residents during this time period and monthly disbursements from MDC's resident accounts averaged $36,500.

Department policy requires timely posting of activity to resident accounts. MDC has the fiduciary responsibility as custodian of the accounts to ensure proper and timely recording of account transactions. MDC personnel said daily posting of resident accounts is impractical. According to an MDC official, the residents have savings accounts which can be used to offset balances that are negative at month end. Of the six accounts

mentioned above, four did not have sufficient balances in savings to cover the negative balances. Department accounting officials said MDC should follow written department policy.

Recommendation #21

We recommend the department ensure MDC personnel record resident account activity on a timely basis as required by department policy.

Segregation of Duties Over Inventory Assets

While reviewing control systems over supplies inventory, we noted an inadequate segregation of duties at MSP. Employees responsible for the custody of warehouse inventory are also responsible for recording transactions and adjustments to the department's supplies inventory management system (SIMS). As a result, warehouse personnel could make unsupported adjustments to inventory records without such adjustments being detected. The combination of the custody and recordkeeping functions places personnel in a position to perpetrate and conceal errors or irregularities in the normal course of their duties.

Section 2-1210.00 Montana Operations Manual states that no one person should perform incompatible functions. State policy also recommends recordkeeping operations and custodianship of assets be separate functions.

MSP personnel said MSP has improved segregation of duties since the last audit by removing the warehouse supervisor from the physical inventory process. We believe additional segregation of duties can be achieved by moving the SIMS data entry function from the warehouse to the accounting office. This move may require personnel to be reassigned, but should not require additional personnel. The department implemented improved inventory controls at MDC and MSH as recommended in the last audit.

Recommendation #22

We recommend the department strengthen inventory control procedures at MSP.

Time Sheet Authorization

Department policy requires employees to sign their biweekly time record. In addition, the policy states that payroll will not be processed without the supervisor's signature on the time records. During our audit of payroll at Montana State Prison (MSP), we noted 14 instances in 19 pay periods where time records tested were not signed by the supervisor and 6 instances in 19 pay periods where records tested were not signed by the employee. MSP processed payroll for these employees without the signatures of supervisors and employees. MSP has an annual payroll of approximately $12.5 million.

When employees do not verify the time they worked and there is no supervisory review of the time claimed by the employee, the potential for intentional or unintentional errors increases. A department official attributed the high incidence of missing signatures to increased workload resulting from a change in payroll systems and disruption of routine by the riot. Personnel now return time sheets to supervisors to ensure all signatures required by department policy are on the time records, the official said.

Recommendation #23

We recommend the department ensure employees and supervisors at MSP approve time records before processing payroll as required by department policy.

Ancillary Service Fees

The department bills for ancillary services provided to the residents of treatment centers. The services provided include laboratory tests, x-rays, and physician services. The department sets billing rates for services based on allowable rates established by Medicaid, rather than the actual cost of providing the service. In our last five audits, we recommended the department determine the feasibility of establishing a system to set ancillary service fees based on the cost of providing the services. The department implemented the recommendation by contracting with an outside consultant to perform the feasibility study.

The consultant recommended the department develop charges based upon the prevailing charges for these services in the region. By billing based on prevailing charges, the department can recover additional amounts for ancillary services paid by parties not limited to the Medicaid rates for ancillary services. Section 53-1-405, MCA, requires the department to bill ancillary services based on the expense of providing these services. The consultant suggested the department propose an amendment to this statute to allow billing on a prevailing charge basis. A department official indicated the department intends to seek such an amendment in the 1993 legislative session.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented. We issued an unqualified opinion on all financial schedules presented in this report. The unqualified opinion means the schedules are fairly stated in all material respects and the user can rely on the information presented.

STATE OF MONTANA

Office of the Legislative Auditor

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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Corrections and Human Services for each of the two fiscal years ended June 30, 1991 and 1992, as shown on pages A-5 through A-12. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Corrections and Human Services for the two years ended June 30, 1991 and 1992, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 31, 1992

DEPARTMENT OF CORRECTIONS AND HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

	General Fund	Special Revenue Fund	Internal Service Fund	Enterprise Fund
Fund Balance: July 1, 1990	$ 0	$ 345,049	$ 55,137	$6,471,266
ADDITIONS:				
Fiscal Year 1990-91				
Budgeted Revenue & Transfers In	14,300,285	8,016,601	210,936	2,887,327
Nonbudgeted Revenue & Transfers In	141,818	6,487		
Prior Year Revenue Adjustments	1,130,182	163,670		(6,973)
Prior Year Revenue		(4,608)		
Cash Transfers In		3,271,108)[1]	434	1,645
Direct Entries to Fund Balance	44,567	57,299		
Support from State of Montana	52,944,785			
Fiscal Year 1991-92				
Budgeted Revenue & Transfers In	16,477,122	8,748,083	240,804	3,747,247
Nonbudgeted Revenue & Transfers In	627,226	62		7,378
Prior Year Revenue Adjustments	(480,877)	(5,182)		(35,802)
Cash Transfers In		3,399,497[1]		
Direct Entries to Fund Balance	(362,621)	(27,677)		
Support From State of Montana	57,661,181			
Total Additions	142,483,668	23,625,340	452,174	6,600,822
REDUCTIONS:				
Fiscal Year 1990-91				
Budgeted Expenditures & Transfers Out	68,305,297	11,089,493	209,611	2,592,243
Nonbudgeted Expenditures & Transfers Out	49,682	(20,000)	398	(216,262)
Prior Year Expenditures		6,851		
Prior Year Expenditure Adjustments	(47,181)	(1,689)	308	1,768
Nonbudgeted Prior Year Expenditure Adjustments			(102)	(328)
Cash Transfers Out			436	1,646
Direct Entries to Fund Balance	253,838	1,337		
Fiscal Year 1991-92				
Budgeted Expenditures & Transfers Out	73,565,878	12,227,331	250,956	3,022,996
Nonbudgeted Expenditures & Transfers Out	454,878		(11,299)	280,720
Prior Year Expenditures	(36)	776		
Prior Year Expenditure Adjustments	(98,688)	165,514		
Nonbudgeted Prior Year Expenditure Adjustments				(241,128)
Total Reductions	142,483,668	23,469,613	450,308	5,441,655
Fund Balance: June 30, 1992	$ 0	$ 500,776	$ 57,003	$7,630,433

[1] See note 5 on page A-12.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

	Charges for Services	Federal	Grants, Contracts, Donations & Abandonments
Fiscal Year 1991-92			
GENERAL FUND			
Estimated Revenue	$16,898,900	$ 25,000	
Actual Revenue	16,335,098	6,536	
Collections Over(Under) Estimate	$ (563,802)	$ (18,464)	
SPECIAL REVENUE FUND			
Estimated Revenue	$ 1,555,254	$ 7,391,178	$ 42,598
Actual Revenue	1,511,105	6,250,805	30,003
Collections Over(Under) Estimate	$ (44,149)	$(1,140,373)	$(12,595)
INTERNAL SERVICE FUNDS			
Estimated Revenue			
Actual Revenue			
Collections Over(Under) Estimate			
ENTERPRISE FUNDS			
Estimated Revenue	$ 7,000		
Actual Revenue	3,355		
Collections Over(Under) Estimate	$ (3,645)		
Fiscal Year 1990-91			
GENERAL FUND			
Estimated Revenue	$12,112,865	$ 23,000	
Actual Revenue	14,147,125	22,763	
Collections Over(Under) Estimate	$ 2,034,260	$ (237)	
SPECIAL REVENUE FUND			
Estimated Revenue	$ 1,125,332	$ 6,927,246	$ 35,900
Actual Revenue	1,278,964	5,736,098	17,824
Collections Over(Under) Estimate	$ 153,632	$(1,191,148)	$(18,076)
INTERNAL SERVICE FUND			
Estimated Revenue			
Actual Revenue			
Collections Over(Under) Estimate			
ENTERPRISE FUND			
Estimated Revenue	$ 7,000		
Actual Revenue	0		
Collections Over(Under) Estimate	$ (7,000)		

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is pr

1 of 2

N SERVICES
- ESTIMATE AND ACTUAL
E 30, 1992

Sale of Documents, Merchandise, & Property	Rentals, Leases, & Royalties	Miscellaneous	Other Financing Sources	Total
$ 4,000	$98,095	$ 48,700		$17,074,695
2,936	88,968	43,584		16,477,122
$ (1,064)	$(9,127)	$ (5,116)		$ (597,573)
$1,444,823	$ 750	$ 68,661	$4,880	$10,508,144
902,694	0	48,394	5,082	8,748,083
$ (542,129)	$ (750)	$(20,267)	$ 202	$(1,760,061)
$ 269,901				$ 269,901
240,804				240,804
$ (29,097)				$ (29,097)
$3,744,366		$ 5,529		$ 3,756,895
3,743,545		347		3,747,247
$ (821)		$ (5,182)		$ (9,648)
$ 2,750	$106,773	$ 49,318		$12,294,706
4,105	91,753	34,539		14,300,285
$ 1,355	$(15,020)	$(14,779)		$ 2,005,579
$1,430,349	$ 750	$ 62,448	$5,600	$ 9,587,625
912,852	1,971	62,362	6,530	8,016,601
$ (517,497)	$ 1,221	$ (86)	$ 930	$(1,571,024)
$ 254,729				$ 254,729
210,936				210,936
$ (43,793)				$ (43,793)
$2,566,153		$ 5,529		$ 2,578,682
2,886,159		1,168		2,887,327
$ 320,006		$ (4,361)		$ 308,645

ovided in the notes to the financial schedules beginning on page A-10.

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DEPARTMENT OF CORRECTIONS & HUMAN SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1992

	Central Operations	Corrections Systems	Mental Health System	Chemical Dependency System	Developmental Disability System	Veteran's Nursing Home Program	Total
PERSONAL SERVICES							
Salaries	$1,102,224	$14,005,287	$16,415,657	$1,420,004	$ 9,619,213	$1,575,286	$44,137,671
Hourly Wages		510,546					510,546
Other Compensation	15,000						15,000
Employee Benefits	254,022	3,783,942	5,314,423	454,014	3,285,827	524,160	13,616,388
Total	1,371,246	18,299,775	21,730,080	1,874,018	12,905,040	2,099,446	58,279,605
OPERATING EXPENSES							
Other Services	129,364	3,662,411	2,072,203	1,450,690	335,566	188,310	7,838,544
Supplies & Materials	27,098	3,516,192	2,028,442	39,629	933,655	315,259	6,860,275
Communications	51,725	238,860	200,242	19,277	54,451	8,732	573,287
Travel	21,083	112,171	58,265	54,621	11,214	1,519	258,873
Rent	38,453	244,395	39,376	17,093	20,398	3,129	362,844
Utilities		675,948	715,788	66,596	385,609	81,224	1,925,165
Repair & Maintenance	18,691	555,826	292,301	15,124	91,036	17,443	990,421
Other Expenses	7,498	290,440	160,159	21,349	24,290	9,579	513,315
Goods Purchased For Resale		1,310,396	156,769		25,268	18,574	1,511,007
Total	293,912	10,606,639	5,723,545	1,684,379	1,881,487	643,769	20,833,731
EQUIPMENT AND INTANGIBLE ASSETS							
Equipment	28,835	515,260	97,782	28,500	90,478	15,904	776,759
Livestock		39,825					39,825
Intangible Assets	350	2,881	1,074	3,350			7,655
Total	29,185	557,966	98,856	31,850	90,478	15,904	824,239
CAPITAL OUTLAY							
Buildings		22,834					22,834
Other Improvements		23,222					23,222
Total		46,056					46,056
LOCAL ASSISTANCE							
From State Sources				1,330,000			1,330,000
Total				1,330,000			1,330,000
GRANTS							
From State Sources		23,679	4,326,367				4,350,046
From Federal Sources			1,360,366	1,880,612			3,240,978
Total		23,679	5,686,733	1,880,612			7,591,024
DEBT SERVICE							
Leases	117,932	4,567	1,705	2,303	35,999		162,506
Total	117,932	4,567	1,705	2,303	35,999		162,506
TOTAL PROGRAM EXPENDITURES	$1,812,275	$29,538,682	$33,240,919	$6,803,162	$14,913,004	$2,759,119	$89,067,161
GENERAL FUND							
Budgeted	$1,873,924	$25,744,594	$31,040,981	$ 242,332	$14,816,195	$ 717,316	$74,435,342
Actual	1,758,760	25,083,181	31,029,760	242,318	14,815,924	635,935	73,565,878
Unspent Budget Authority	$ 115,164	$ 661,413	$ 11,221	$ 14	$ 271	$ 81,381	$ 869,464
SPECIAL REVENUE FUND							
Budgeted	$ 52,563	$ 1,940,176	$ 2,637,888	$6,813,492	$ 120,864	$2,128,112	$13,693,095
Actual	52,563	1,182,501	2,211,159	6,560,844	97,080	2,123,184	12,227,331
Unspent Budget Authority	$ 0	$ 757,675	$ 426,729	$ 252,648	$ 23,784	$ 4,928	$ 1,465,764
INTERNAL SERVICE FUNDS							
Budgeted	$ 7,237	$ 269,901					$ 277,138
Actual	952	250,004					250,956
Unspent Budget Authority	$ 6,285	$ 19,897					$ 26,182
ENTERPRISE FUNDS							
Budgeted		$ 3,077,183					$ 3,077,183
Actual		3,022,996					3,022,996
Unspent Budget Authority		$ 54,187					$ 54,187

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

	Central Office	Montana Developmental Center	Center for the Aged	Eastmont Human Services Center	Montana State Prison	Swan River Forest Camp
PERSONAL SERVICES						
Salaries	$ 3,854,929	$7,628,300	$1,837,034	$1,758,180	$ 9,291,000	$ 568,693
Hourly Wages	27,684				426,517	
Other Compensation						
Employee Benefits	916,065	2,836,389	564,994	561,362	2,396,354	143,918
Total	4,798,678	10,464,689	2,402,028	2,319,542	12,113,871	712,611
OPERATING EXPENSES						
Other Services	3,755,203	247,486	56,329	135,175	437,056	45,404
Supplies & Materials	318,689	859,580	386,631	121,962	3,661,603	115,575
Communications	175,664	50,306	15,284	11,026	123,940	4,669
Travel	127,335	5,271	3,604	3,466	62,060	1,805
Rent	217,247	29,222	3,235	3,423	21,315	1,395
Utilities	98,230	404,834	97,409	61,448	627,483	43,539
Repair & Maintenance	63,297	84,918	30,483	16,452	428,080	15,981
Other Expenses	127,232	18,750	7,776	3,283	186,293	52,868
Goods Purchased For Resale		30,640	3,729		1,115,962	57,547
Total	4,882,897	1,731,007	604,480	356,235	6,663,792	338,783
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment	36,368	113,384	18,138	631	285,271	1,208
Intangible Assets		8,496			2,508	
Livestock					59,035	
Total	36,368	121,880	18,138	631	346,814	1,208
CAPITAL OUTLAY						
Buildings					30,299	
Other Improvements					4,662	
Total					34,961	
LOCAL ASSISTANCE						
From State Sources	1,079,388					
Total	1,079,388					
GRANTS						
From State Sources	4,184,434				24,426	
From Federal Sources	3,548,616					
Total	7,733,050				24,426	
DEBT SERVICE						
Leases	13,968	41,109				
Total	13,968	41,109				
TOTAL PROGRAM EXPENDITURES	$18,544,349	$12,358,685	$3,024,646	$2,676,408	$19,183,864	$1,052,602
GENERAL FUND						
Budgeted	$12,583,204	$13,191,079	$3,169,390	$2,732,684	$15,764,231	$ 948,648
Actual	12,376,485	12,250,971	3,014,563	2,675,753	15,523,385	933,204
Unspent Budget Authority	$ 206,719	$ 940,108	$ 154,827	$ 56,931	$ 240,846	$ 15,444
SPECIAL REVENUE FUND						
Budgeted	$ 7,409,224	$ 153,947	$ 14,135	$ 700	$ 1,413,947	$ 129,770
Actual	6,167,377	107,714	10,083	655	859,112	119,398
Unspent Budget Authority	$ 1,241,847	$ 46,233	$ 4,052	$ 45	$ 554,835	$ 10,372
INTERNAL SERVICE FUNDS						
Budgeted					$ 261,928	
Actual					209,611	
Unspent Budget Authority					$ 52,317	
ENTERPRISE FUNDS						
Budgeted	$ 5,529				$ 3,098,707	$ 7,000
Actual	487				2,591,756	0
Unspent Budget Authority	$ 5,042				$ 506,951	$ 7,000

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in th

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D ACTUAL

Montana Veterans Home	Montana State Hospital	Board of Pardons	Total
$1,410,633	$14,248,400	$101,050	$40,698,219
			454,201
		21,400	21,400
506,261	4,326,896	22,668	12,274,907
1,916,894	18,575,296	145,118	53,448,727
164,575	1,067,071	2,365	5,910,664
305,649	1,428,895	4,777	7,203,361
9,985	176,747	10,681	578,302
1,205	41,190	17,299	263,235
2,279	28,540	900	307,556
87,156	782,269		2,202,368
30,776	228,504	2,192	900,683
3,243	91,167	1,881	492,493
17,000	148,889		1,373,767
621,868	3,993,272	40,095	19,232,429
4,727	57,276	488	517,491
			11,004
			59,035
4,727	57,276	488	587,530
			30,299
			4,662
			34,961
			1,079,388
			1,079,388
			4,208,860
			3,548,616
			7,757,476
		1,056	56,133
		1,056	56,133
$2,543,489	$22,625,844	$186,757	$82,196,644
$ 642,004	$21,874,747	$191,063	$71,097,050
538,727	20,805,452	186,757	68,305,297
$ 103,277	$ 1,069,295	$ 4,306	$ 2,791,753
$2,006,775	$ 1,852,908		$12,981,406
2,004,762	1,820,392		11,089,493
$ 2,013	$ 32,516		$ 1,891,913
			$ 261,928
			209,611
			$ 52,317
			$ 3,111,236
			2,592,243
			$ 518,993

e notes to the financial schedules beginning on page A-10.

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DEPARTMENT OF CORRECTIONS AND HUMAN SERVI
SCHEDULE OF ADDITIONS AND DEDUCTIONS T(
AGENCY FUND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1

	Institutions Central Office	Montana Developmental Center	Center for the Aged	Eastmont Human Services Center
Property Held in Trust Balance at July 1, 1990	$ 19,243	$125,202	$144,358	$ 70,797
ADDITIONS:				
Fiscal Year 1990-91				
To Facility's Inmate/Patient/Resident Accounts:		429,404	454,729	192,871
Women's Correctional Center (See Note A)	2,568			
Billings Life Skills Center	74,513			
Missoula Life Skills Center	188,129			
Intensive Supervision Program	1,500			
Housing Deposits and Self-Pay Insurance				
Fiscal Year 1991-92				
To Facility's Inmate/Patient/Resident Accounts:		382,345	518,895	201,349
Billings Life Skills Center	67,321			
Missoula Life Skills Center	195,705			
Housing Deposits and Self-Pay Insurance				
TOTAL ADDITIONS	529,736	811,749	973,624	394,220
DEDUCTIONS:				
Fiscal Year 1990-91				
From Facility's Inmate/Patient/Resident Accounts:		(444,306)	(445,868)	(199,786)
Billings Life Skills Center	(73,069)			
Missoula Life Skills Center	(184,833)			
Intensive Supervision Program	(1,800)			
Housing Deposits and Self-Pay Insurance				
Fiscal Year 1991-92				
From Facility's Inmate/Patient/Resident Accounts:		(402,970)	(513,552)	(223,588)
Women's Correctional Center (See Note A)	(800)			
Billings Life Skills Center	(66,713)			
Missoula Life Skills Center	(201,229)			
Housing Deposits and Self-Pay Insurance				
TOTAL DEDUCTIONS	(528,444)	(847,276)	(959,420)	(423,374)
Property Held in Trust Balance at June 30, 1992	$ 20,535	$ 89,675	$ 158,562	$ 41,643

Note A: Additions and deductions for the Women's Correctional Center are included in the additions and deducti balances are recorded on Institutions' Central Office accounting records. This adjustment represent the fiscal year and the relationship of accountability for this activity.

Most of the property held in trust in the Agency Fund consists of cash belonging to inmates, patients, and res by accounting for these moneys. This schedule was prepared from manual records maintained at the department's f information is provided in the notes to the financial schedules beginning on page A-10.

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Montana State Prison	Swan River Forest Camp	Montana Veterans' Home	Montana State Hospital	Total
$ 102,482	$ 3,207	$ 3,894	$ 164,787	$ 633,970
1,277,785	92,744	28,109	551,579	3,027,221
			(2,568)	0
				74,513
				188,129
				1,500
			19,924	19,924
1,401,914	102,192	28,385	634,878	3,269,958
				67,321
				195,705
			12,636	12,636
2,679,699	194,936	56,494	1,216,449	6,856,907
(1,256,930)	(90,644)	(27,134)	(613,404)	(3,078,072)
				(73,069)
				(184,833)
				(1,800)
			(20,034)	(20,034)
(1,346,288)	(98,264)	(28,424)	(648,449)	(3,261,535)
			800	0
				(66,713)
				(201,229)
			(11,695)	(11,695)
(2,603,218)	(188,908)	(55,558)	(1,292,782)	(6,898,980)
$ 178,963	$ 9,235	$ 4,830	$ 88,454	$ 591,897

ons for Montana State Hospital. The Women's Correctional Center account
s the net increase in Women's Correctional Center account balances for

idents of the department's facilities. The department acts as an agent
acilities and the Statewide Budgeting and Accounting System. Additional

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1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Agency Funds. In applying the modified accrual basis, the department records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the department incurs the related liability and it is measurable.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The Schedule of Budgeted Program Expenditures By Object and Fund, Budget and Actual for the fiscal year ended June 30, 1992 shows different program columns than those presented for the fiscal year ended June 30, 1991.

During fiscal year 1990-91, the legislature enacted separate appropriations for the department's Central Office operations and various institutions for 1991 biennium. In October 1990 the department reorganized. The department now consists of the Central Operations Program, Corrections Division, Mental Health Division, and Alcohol and Drug Abuse Division. For fiscal year 1991-92, the legislature appropriated funds for the department as a single entity in the listed programs.

Except for the Schedule of Additions and Deletions to Agency Fund Property Held in Trust, presented on page A-9, the financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include federal assistance, Veteran's Administration reimbursement and related expenditures for veteran's care, canteen activity, and donations.

Proprietary Funds

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department license plate manufacturing operations are recorded in the Internal Service Fund.

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds include the MSP ranch and industries work program.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private

organizations, other governments or other funds. Department fiduciary funds include moneys belonging to residents of institutions.

2. Annual and Sick Leave

Employees at the department accumulate both annual and sick leave. The department pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. In the Proprietary Funds, the increase in annual and 25 percent of the increase in sick leave are recognized as nonbudgeted expenses when the related liability is recorded at year end. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1992, the department had a liability of $3,692,119 and $73,237 in the General Long-Term Debt Account Group and Proprietary Funds, respectively.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS) or the Montana Teachers' Retirement System. The department's contribution to these systems was $2,738,515 in Governmental Funds and $41,080 in Proprietary Funds in fiscal year 1991-92 and $2,526,736 in Governmental Funds and $33,888 in Proprietary Funds in fiscal year 1990-91.

4. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. Cash Transfer

In fiscal years 1991-92 and 1990-91 the department received cash transfers of $3,399,497 and $3,271,108, respectively, in the Special Revenue Fund. These transfers represent earmarked alcohol tax money used for treatment of alcoholism and collected by the Department of Revenue.

Agency Response

DEPARTMENT OF CORRECTIONS
AND HUMAN SERVICES

STAN STEPHENS, GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 444-3930 FAX (406) 444-4920

HELENA, MONTANA 59620-1301

November 18, 1992

RECEIVED
NOV 18 1992
LEGISLATIVE AUDITOR

Scott Seacat, Legislative Auditor
Office of the Legislative Auditor
Capitol Station
Helena, MT 59620

Mr. Seacat:

We have reviewed the audit report prepared by the Office of the Legislative Auditor for the Department of Corrections and Human Services.

The report provides a very welcome service and is sincerely appreciated.

Our responses to the recommendations are attached.

Sincerely,

CURT CHISHOLM, Director
Department of Corrections and
Human Services

Attachment

CC/JW/jeb

DEPARTMENT OF CORRECTIONS AND HUMAN SERVICES
AUDIT RECOMMENDATION RESPONSE

Recommendation #2

We recommend the Department request reimbursement for allowable central office costs to allocate to its cost-based units.

Response:

Concur. The department will provide an allocation of central office administrative support costs for FY's 91 and 92 to each cost based unit on the basis of a percentage of its total costs. The department will request MDC, EHSC and MSH (long term care) to include these costs on their FY 92 cost reports and to file amended cost reports for FY 91 prior to the SRS final rate settlement process.

Recommendation #3

We recommend the department execute allocation agreements with physicians at MSH and recover a portion of physician costs from Medicaid through per diem charges.

Response:

Concur. Hospital management will have all physicians provide the percentage of their time that is involved in administrative duties. This time and commensurate costs will be included in Administrative and General Costs in future per diem calculations. The Reimbursement Bureau will provide a report from the Management Information System to allocate the remaining hours spent in patient care to the individual treatment units to be billed separately.

Recommendation #4

We recommend the department implement procedures to ensure all billable physician services, including those preceding quarterly patient reviews, are documented and entered into the billing system.

Response:

Concur. The hospital will ensure that all physician visits are properly documented and entered into the billing system. The department will include the requirement that service documents be completed by the physicians on a timely basis in the physician's performance criteria.

Recommendation #5

We recommend the department implement procedures to bill for per diem at MVH and CFA within five days after the end of each month.

Response:

Concur. The department will attempt to submit private statements for MVH and CFA within 5 working days of the service month. The department will review the revenue factors which may impact a one month delay of including current pharmacy charges within the service months billing.

Recommendation #6

We recommend the department conduct periodic reviews of rental rates charges to MSH employees to ensure the department recovers the costs of providing the housing.

Response:

Concur. The Management Services Division will conduct an annual evaluation of the Montana State Hospital rental rates utilizing the procedure established by the department in the mid-1980's. This will ensure greater recovery of the cost of providing this housing.

Recommendation #7

We recommend the department eliminate structural insurance coverage on abandoned buildings.

Response:

Concur. The department has already contacted the Tort Claims Division of the Department of Administration to discontinue property damage insurance coverage on abandoned buildings.

Recommendation #8

We recommend the department comply with state law regarding use of sick leave and vacation benefits in conjunction with workers' compensation benefits.

Response:

Concur. The department is currently rewriting its policy regarding supplementing of workers' compensation benefits in accordance with state law.

Recommendation #9

We recommend the department establish written procedures at MSH for the patient employment program to ensure the program complies with current federal regulations.

Response:

Concur. The Patient Employment Policy and Procedure was revised as of September 23, 1992. Patients who have worked the six month probationary period will be paid the proportionate share of wage paid a permanent state employee performing similar work. The percentage of wage they will be paid will be based on their individual capabilities.

Recommendation #10

We recommend the department notify the Attorney General and the Legislative Auditor of any actual or suspected theft in compliance with state law.

Response:

Concur. The department will make written notification of any actual or suspected theft of monies or property which the State controls either directly or indirectly.

Recommendation #11

We recommend the department adopt rules to implement the prison industries program as required by state law.

Response:

Concur. The department is currently drafting administrative rules for the operation of the Industries Program.

Recommendation #12

We recommend the department:

A. Properly notify county welfare departments of the release of patients as required by state law.

B. If necessary, seek legislation to permit the use of an alternative procedure to notify local officials of the release of patients.

Response:

Concur. In addition to notifying the county to which the patient is being released, the county of commitment will also be notified of the patient's release from the hospital. The current discharge policies and procedures are under review at this time and these procedures will be revised to include the appropriate notifications.

Recommendation #13

We recommend the department follow state purchasing regulations for computer purchases in compliance with state law.

Response:

Concur. The department is currently drafting a comprehensive purchasing manual, modeled after the manual prepared by the Department of Fish, Wildlife, and Parks, which will ensure compliance with state law. It is anticipated that this manual will be in place during FY93.

Recommendation #14

We recommend the department accurately record revenue in accordance with state accounting policy.

Response:

Concur. This was a one-time error resulting from new personnel in the fiscal bureau who at the time were unaware of all reimbursement revenue collection procedures. This has already been remedied and will not occur again.

Recommendation #15

We recommend the department obtain approval for the Life Skills Center cash fund and record its activity on the state's accounting records.

Response:

Concur. The department will request approval from the Department of Administration for this cash change fund and a departmental policy regarding the establishment, receipt, and disbursement of all non-treasury cash accounts in accordance with state law will be prepared and distributed.

Recommendation #16

We recommend the department ensure MSP records equipment expenditure transactions in accordance with state accounting policy.

Response:

MSP personnel interpreted M.O.M. 2-1700 and its modification via Management Memo 2-89-1, effective date 7-1-88, to mean that minor property costing under $1,000 was to be recorded under operational expenses rather than equipment. Department of Administration Accounting Division personnel stated that this interpretation, though incorrect, was held by other agencies. In response, the Accounting Division is preparing to release Management Memo 2-93-1, which states that property costing under $1,000 is to be recorded under operational expenditures.

Recommendation #17

We recommend the department assign individual property numbers to fixed assets as required by state accounting policy.

Response:

Concur. The department will immediately assign individual property numbers to the fixed assets in question as required by state accounting policy.

Recommendation #18

We recommend the department use contingent revolving fund accounts in accordance with state accounting policy.

Response:

Concur. The department will use the Contingent Revolving Account as stipulated under State policy. The uses allowed include emergency travel, COD shipments, freight due on delivery, payroll disbursements when there are errors in pay, and other emergency situations deemed necessary by the Business Manager.

Additionally, the department will review all of its contingent revolving funds and draft a policy outlining the use of these accounts.

Recommendation #19

We recommend the department implement procedures to ensure accounting records accurately reflect the department's financial activity.

Response:

Concur. Management Services Division personnel will develop a checklist designating responsibility for fiscal year-end adjustments upon receipt of the Department of Administration's fiscal year-end closing Management Memo.

Recommendation #20

We recommend the department:

A. Deposit receipts in accordance with state law.
B. Restrictively endorse checks upon receipt by department staff.
C. Prepare written receipts for residents who give cash or checks to staff.

Response:

Concur. MDC is making deposits daily to avoid the risk of violating state law. Staff have been re-trained to endorse all checks immediately at time of receipt.

Montana State Hospital will require a restrictive endorsement upon receipt of checks from the patients. Additionally, a receipt will be issued to the patient at the time the funds are given to a staff member for deposit. A copy of the receipt will be given to the patient, one copy retained on the unit, and one copy will accompany the funds to the Business Office.

The Center for the Aged will deposit funds daily when coin and currency exceeds $100, when total receipts exceed $500 or at least weekly.

Recommendation #21

We recommend the department ensure MDC personnel record resident account activity on a timely basis as required by department policy.

Response:

Concur. The department will make every effort to record activity on a timely basis as required by department policy.

Recommendation #22

We recommend the department strengthen inventory control procedures at MSP.

Response:

Concur. The department will make every effort to strengthen inventory control procedures within the constraints of the legislatively authorized budget.

Currently, inmate clerks are involved with inputting information into the SIMS system. Those inmates are not involved in receiving, storing, picking, and delivery of SIMS items. Also, the SIMS backup reports are verified by a state employee that is not involved in receiving, storing, picking, and delivery of SIMS items.

Recommendation #23

We recommend the department ensure employees and supervisors at MSP approve time records before processing payroll as required by department policy.

Response:

Concur.

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

STAN STEPHENS
GOVERNOR

JULIA E. ROBINSON
DIRECTOR

STATE OF MONTANA

P.O. BOX 4210
HELENA, MONTANA 59604-4210

November 19, 1992

Scott Seacatt
Legislative Auditor
Room 135
State Capitol
Helena, MT 59604

Dear Scott:

Per your request of November 13, 1992, attached is the Departments' reply to recommendation #1 of the Department of Corrections and Human Services audit directed to our Department.

If you have any questions, please call me at 444-2651.

Sincerely,

John Donwen

John Donwen, Administrator
Support Services Division

Recommendation #1:

We recommend the Department of Social and Rehabilitation Services establish timely cost settlement dates for cost based units in its administrative rules.

Response:

The Department of Social and Rehabilitation Services (SRS) disagrees with the recommendation of establishing the time period of cost settlement in its administrative rules. The establishment of timelines for settlements of cost based units still does not address the real issues that adequate resources are not available to process the cost reports and issue settlements in a more timely manner.

By specifying in the administrative rules a time line, that cannot currently be met, we may subject the Medicaid program to sanctions at the federal level if we cannot comply with the rules for timely settlements and are out of compliance with the state plan. This would jeopardize the federal dollars that are used to set rates for the cost based units of the Department of Corrections and Human Services (DCHS) not just the loss of general fund interest. The federal scrutiny of these providers since they are State run facilities and are cost based units results in substantial risk if the administrative rules are revised and the agency cannot meet the timelines to settle the cost based units.

When the situation arises where the rate established through budgets and set by appropriated levels is not adequate to cover the costs being incurred by the cost based units of the DCHS the Department of SRS has requested modification to the budget in order to exceed the appropriated levels and pay interim rates higher than the appropriated levels. The Department of Social and Rehabilitation Services feels that this method gets the rate adjusted prior to the settlement of the cost report and can more closely match the adjustment in the interim rate to the period of time when the costs are actually being incurred. The department can do this without a change in the administrative rules but needs approval for the additional federal spending authority from the Governor's Office of Budget and Program Planning(OBPP). DCHS must obtain any additional general fund via a supplemental appropriation if this is necessary.

Establishment of provisions for settlement of cost based providers within specific time periods, which for the most part are State providers, would result in questions from other providers that participate in the Medicaid program as to why preferential treatment is being given to State operated facilities. These providers would lobby for changes in the administrative rules to accommodate payback to providers within specific timelines or recoveries of overpayment by the department within specific time

periods. The department does not have the resources and cannot accommodate this type of time parameter for recovery of overpayments or underpayments if pursued by other provider groups.

The Department of Social and Rehabilitation Services is committed to resolve or lessen the amount time that it takes to settle the cost based provider cost reports. These providers are cost based and by the nature of the services they provide (IMD and ICF/MR) more difficult and technical cost reports to review. Every effort will be taken to direct resources to resolve the time delays in processing the desk reviews and the settlements of these cost based units as well as cross training of audit staff to develop the expertise to desk review and settle the cost based unit reports in a timely manner.